

**Audited Financial Statements**

# **Lighthouse Connections Academy**

Troy, Michigan

**June 30, 2020**

## CONTENTS

	<u>Page</u>
<b>Independent Auditor’s Report</b>	i – ii
<b>Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i></b>	iii - iv
<b>Management’s Discussion and Analysis</b>	v - vii
<b>Basic Financial Statements</b>	
Statement of Net Position	1
Statement of Activities	2
Combined Balance Sheet – All Governmental Funds	3
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance – All Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	6
Notes to Financial Statements	7 - 16
<b>Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund	17
Schedule of Prior Year Audit Findings	18



## INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors of Lighthouse Connections Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lighthouse Connections Academy as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Lighthouse Connections Academy's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lighthouse Connections Academy, as of June 30, 2020, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lighthouse Connections Academy's basic financial statements. The combining and individual nonmajor fund financial statements, and schedules of revenues and expenditures, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and schedules of revenues and expenditures, are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2020, on our consideration of Lighthouse Connections Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lighthouse Connections Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lighthouse Connections Academy's internal control over financial reporting and compliance.



Croskey Lanni, PC

Rochester, Michigan  
November 2, 2020





**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**To the Board of Directors  
of Lighthouse Connections Academy**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lighthouse Connections Academy, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Lighthouse Connections Academy's basic financial statements, and have issued our report thereon dated November 2, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Lighthouse Connections Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lighthouse Connections Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Lighthouse Connections Academy's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lighthouse Connections Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Croskey Lanni, PC". The signature is written in a cursive style.

Croskey Lanni, PC

Rochester, Michigan  
November 2, 2020

## **LIGHTHOUSE CONNECTIONS ACADEMY MANAGEMENT’S DISCUSSION AND ANALYSIS**

This section of the Lighthouse Connections Academy (the Academy) annual financial report presents our discussion and analysis of the school’s financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the school’s financial statements, which immediately follow this section.

### **FINANCIAL HIGHLIGHTS**

- Government wide revenues were at \$5,293,213 while expenses were \$4,791,761.
- At June 30, 2020, the Academy’s government wide assets exceeded its liabilities by \$604,267.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report consists of a series of financial statements that show information for the Academy as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities provides information about the activities of the Academy as a whole and presents a longer-term view of the Academy’s finances. Our fund financial statements are included later in the financial report. For our governmental activities, these statements tell how we financed our services in the short-term as well as what remains for future spending. Fund statements also may give you some insights into the Academy’s overall financial health. Fund financial statements also report operations in more detail than the government-wide financial statements by providing information about the most significant fund, the general fund.

### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements are reported in compliance with GASB 34. These statements present information on the Academy’s finances in a manner similar to private sector businesses. One of the most important questions asked about the Academy is, “Is the Academy as a whole better off or worse off financially as a result of the year’s activities?” The Statement of Net Position and Statement of Activities report information on the Academy as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position shows assets and liabilities, with the difference between the two reported as net position. All capital assets and long-term liabilities, and general government functions, are shown in the Statement of Position.

The Statement of Activities shows revenues, expenses, and the change in net position for the Academy as a whole. Revenues and expenses attributable to specific functions are segregated from general revenues, to display the extent to which general revenues support each function.

### **FUND FINANCIAL STATEMENTS**

Governmental funds account for the same functions as are reported as governmental activities in the government-wide financial statements. The governmental fund reporting focuses on how money flows in and out of funds and the balances left at year end that are available for spending. They are reported using the accounting method called “modified accrual” accounting, which measures cash and all other financial assets that can be readily converted to cash. This information is essential for preparation of and compliance with annual budgets. We describe the relationship (or differences) between

governmental activities (reported in the Statement of Position and the Statement of Activities) and governmental funds in reconciliations following the government statements. The notes to the financial statements provide additional information that is essential to a complete understanding of the data provided in the financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets, liabilities and net position for the years ended June 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
<b>Assets and Deferred Outflows</b>		
Current and Other Assets	\$ 2,274,205	\$ 1,271,288
Capital Assets, net	9,950	11,816
Total Assets and Deferred Outflows	<u>2,284,155</u>	<u>1,283,104</u>
<b>Liabilities and Deferred Inflows</b>		
Current Liabilities	<u>1,679,888</u>	<u>1,180,289</u>
<b>Net Position</b>		
Net investment in capital assets	9,950	11,816
Net position: unrestricted	<u>594,317</u>	<u>90,999</u>
Total Net Position	<u>\$ 604,267</u>	<u>\$ 102,815</u>

The Academy's revenues and expenses were as follows:

	<u>2020</u>	<u>2019</u>
<b>General Revenues</b>		
State school aid	\$ 4,857,271	\$ 2,823,699
Miscellaneous	-	-
Operating grants	<u>435,942</u>	<u>222,249</u>
Total Revenues	<u>5,293,213</u>	<u>3,045,948</u>
<b>Expenses</b>		
Instructional	3,008,133	1,724,282
Support services	1,781,762	1,217,573
Other	<u>1,866</u>	<u>1,278</u>
Total expenses	<u>4,791,761</u>	<u>2,943,133</u>
Change in Net Position	501,452	102,815
Beginning Net Position	<u>102,815</u>	<u>-</u>
Ending Net Position	<u>\$ 604,267</u>	<u>\$ 102,815</u>

## **ANALYSIS OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS**

During the year ended June 30, 2020, the Academy's revenue of \$5,293,213 exceeded its expenses of \$4,791,761 by \$501,452, ending the year with a net position balance of \$604,267. Per pupil funding and student enrollment are the primary factors in determining the revenue and expenses for the Academy. The student count for the year ended June 30, 2020 was 610.

## **BUDGET VARIATIONS**

The actual revenue was less than budgeted revenue by \$48,942, mainly due to reduction in the per pupil funding that was enacted at year end. Actual expenses were lower than budgeted expenses by \$123,021 resulting in the ending fund balance exceeding the budgeted amounts by \$74,079.

## **CAPITAL ASSETS**

The Academy had \$9,950 in capital assets, net of depreciation, at June 30, 2020. Please refer to the notes to the basic financial statements for further information.

## **REQUESTS FOR INFORMATION**

Our financial report is designed to provide our parents, teachers, students, investors and creditors with an overview of the Academy's finances. If you have any questions about this report or need any clarification of information please contact the Lighthouse Connections Academy offices, located at:

Lighthouse Connections Academy  
3150 Livernois Rd, Suite 201  
Troy, MI 48083

# LIGHTHOUSE CONNECTIONS ACADEMY

## STATEMENT OF NET POSITION JUNE 30, 2020

### ASSETS AND DEFERRED OUTFLOWS

#### Current Assets

Cash and cash equivalents	\$ 1,236,623
Due from other governmental units	<u>1,037,582</u>
Total current assets	2,274,205

#### Capital Assets - Net of Accumulated Depreciation

9,950

Total assets and deferred outflows	<u>\$ 2,284,155</u>
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### LIABILITIES, DEFERRED INFLOWS AND NET POSITION

#### Current Liabilities

Accounts payable	\$ 1,531,744
Other accrued expenses	142,491
Unearned revenue	<u>5,653</u>
Total current liabilities	1,679,888

#### Net Position

Net investment in capital assets	9,950
Unrestricted	<u>594,317</u>
Total net position	<u>604,267</u>
Total liabilities, deferred inflows and net position	<u>\$ 2,284,155</u>

See accompanying notes to financial statements

## LIGHTHOUSE CONNECTIONS ACADEMY

### STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

		Program Revenues		Net (Expense) Revenues and Changes in Net Position
	Expenses	Charges for Services	Operating Grants	Government Type Activities
<b>Functions</b>				
Instruction				
Basic programs	\$ 2,545,495	\$ -	\$ 121,785	\$ (2,423,710)
Added needs	462,638	-	284,557	(178,081)
Support services				
Instructional staff support services	325,772	-	29,600	(296,172)
General administration	160,106	-	-	(160,106)
School administration	948,130	-	-	(948,130)
Business support services	80,689	-	-	(80,689)
Operations and maintenance	80,321	-	-	(80,321)
Central support services	186,744	-	-	(186,744)
Unallocated depreciation	1,866	-	-	(1,866)
Total primary government	\$ 4,791,761	\$ -	\$ 435,942	(4,355,819)
<b>General Purpose Revenues</b>				
State school aid - unrestricted				4,857,271
Change in net position				501,452
Net position - July 1, 2019				102,815
Net position - June 30, 2020				\$ 604,267

See accompanying notes to financial statements

# LIGHTHOUSE CONNECTIONS ACADEMY

## COMBINED BALANCE SHEET – ALL GOVERNMENTAL FUNDS JUNE 30, 2020

### ASSETS

Cash and cash equivalents	\$ 1,236,623
Due from other governmental units	<u>1,037,582</u>
Total assets	<u><u>\$ 2,274,205</u></u>

### LIABILITIES AND FUND BALANCE

#### Liabilities

Accounts payable	\$ 1,531,744
Unearned revenue	5,653
Other accrued expenses	<u>142,491</u>
Total liabilities	1,679,888

#### Fund Balance

Unassigned	<u>594,317</u>
Total liabilities and fund balance	<u><u>\$ 2,274,205</u></u>

## LIGHTHOUSE CONNECTIONS ACADEMY

### RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION OF GOVERNMENTAL ACTIVITIES JUNE 30, 2020

Amounts reported for governmental activities in the statement of net position are different because:

<b>Total Governmental Fund Balances</b>	\$ 594,317
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$13,094 and the accumulated depreciation is \$3,144.	<u>9,950</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 604,267</u></u>

See accompanying notes to financial statements

## LIGHTHOUSE CONNECTIONS ACADEMY

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – ALL GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2020

#### Revenues

State sources	\$ 5,029,548
Federal sources	<u>331,850</u>
Total governmental fund revenues	5,361,398

#### Expenditures

Instruction	
Basic programs	2,545,495
Added needs	462,638
Support services	
Instructional staff support services	325,772
General administration	160,106
School administration	948,130
Business support services	80,689
Operations and maintenance	80,321
Central support services	<u>186,744</u>
Total governmental fund expenditures	<u>4,789,895</u>

Excess (deficiency) of revenues  
over expenditures 571,503

Fund balance - July 1, 2019 22,814

Fund balance - June 30, 2020 \$ 594,317

## LIGHTHOUSE CONNECTIONS ACADEMY

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

Amounts reported for governmental activities in the statement of activities are different because:

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 571,503</b>
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation and amortization expense. This is the amount by which capital outlays exceeded depreciation and amortization in the current period.

Depreciation and amortization expense	(1,866)
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Revenue is reported in the statement of activities when earned, but not reported in the funds until collected or collectible within 60 days of year end.	<u>(68,185)</u>
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<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 501,452</u></b>
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# LIGHTHOUSE CONNECTIONS ACADEMY

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2020

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Lighthouse Connections Academy (the “Academy”) conform to generally accepted accounting principles applicable to public school academies. The following is a summary of the significant accounting policies:

#### **Reporting Entity**

Lighthouse Connections Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, and began operation in July 2018.

In July 2018, the Academy entered into a contract with Oxford Community Schools Board of Education to charter a public school academy. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State constitution. The Board of Education is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays Oxford Community Schools Board of Education three percent of state aid as administrative fees. Total administrative fees paid for the year ended June 30, 2020 were approximately \$156,640.

In July 2018, the Academy entered into an agreement with Connections Education (“Connections”). Under the terms of this agreement, “Connections” provides a variety of services including management, curriculum, educational programs and teacher training. The Academy is obligated to pay “Connections” varying amounts based upon the services provided according to the contract. The fee schedule is mutually agreed upon annually and each payment to Connections is approved by the board at a regularly scheduled open meeting. Payments to Connections include a blend of fixed amounts based upon the number of students or teachers as well as reimbursements for actual costs paid on behalf of the school.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of criteria, the Academy does not contain component units.

#### **Fund Financial Statements**

Fund financial statements report detailed information about the Academy. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

#### **Basis of Presentation – Fund Accounting**

The accounts of the Academy are organized on the basis of funds. The operations of a fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories.

## LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2020

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Governmental Funds

A governmental fund is a fund through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through a governmental fund.

**General Fund** - The general fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Governmental and agency funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Revenue that is both measurable and available for use to finance operations is recorded as revenue when earned. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.
- b. Payments for inventorable types of supplies, which are not significant at year end, are recorded as expenditures at the time of purchase.
- c. Principal and interest of general long-term debt are not recorded as expenditures until their due dates.
- d. The State of Michigan utilizes a foundation allowance funding approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law. A major portion of the Academy's revenue is derived from this state aid. As such, the Academy is considered to be economically dependent on this aid. The Academy's existence is dependent upon qualification for such aid.

#### Government-Wide Financial Statements

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliations with brief explanations to better identify the relationships between the government-wide statements and the statements for governmental funds.

## LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2020

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the Academy and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Academy does not allocate indirect expenses to programs. In creating the government-wide financial statements the Academy has eliminated inter-fund transactions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or function is self financing or draws from the general revenues of the Academy. When both restricted and unrestricted resources are available for use, it is the Academy's policy to use restricted resources first.

Net position should be reported as restricted when constraints placed on net position's use is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Academy first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

#### **Cash and Cash Equivalents**

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools and GASB No. 40, Deposit and Investment Risk Disclosures. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. The Academy held investments in mutual funds that invest solely in U.S. Treasury obligations. The funds are held in trust for debt service and capital projects. State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, saving accounts, deposit accounts, and or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Corporation or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or Federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

#### **Receivables**

Receivables at June 30, 2020 consist primarily of state school aid due from the State of Michigan and the federal government. All receivables are expected to be fully collected in July and August of 2020 and are considered current for the purposes of these financial statements.

# LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2020

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

### Prepaid Assets

Payments made to vendors for services that will benefit periods beyond June 30, 2020 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

### Capital Assets and Depreciation

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions or retirements during the year. The Academy follows the policy of not capitalizing assets with a useful life of less than one year. The Academy does not possess any infrastructure assets.

All reported capital assets, with the exception of land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Building and improvements	10 – 50 years
Furniture and equipment	5 – 15 years
Computers and software	3 – 10 years

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the non-current portion of capital leases that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Academy or through external restrictions imposed by creditors, grantors or laws of regulations of other governments.

### Fund Equity

The Academy has adopted GASB 54 as part of its fiscal year reporting. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Academy's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on those resources.

## LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2020

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GASB 54 provides for two major types of fund balances, which are non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. This category typically includes prepaid items and inventories.

In addition to non-spendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- a. *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- b. *Committed fund balance* – amounts constrained to specific purposes by the Board; to be reported as committed, amounts cannot be used for any other purpose unless the Board takes action to remove or change the constraint.
- c. *Assigned fund balance* – amounts the Board intends to use for a specific purpose; intent can be expressed by the Board or by an official or committee to which the Board delegates the authority.
- d. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the general fund.

The Academy follows the policy that restricted, committed, or assigned amounts will be considered to have been spent when an expenditure is incurred for purposes for which both unassigned and restricted, committed, or assigned fund balances are available. There are no governmental funds with a deficit.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

#### Upcoming Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases* which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based upon the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Academy is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the Academy's financial statements for the year ending June 30, 2022.

## **LIGHTHOUSE CONNECTIONS ACADEMY**

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2020

### **NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Annual budgets are adopted on a consistent basis with accounting principles generally accepted in the United States of America and state law for the general fund. All annual appropriations lapse at fiscal year-end and encumbrances are not formally recorded.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. The Academy is required by law to adopt a general fund budget. During the year ended June 30, 2020 the budget was amended in a legally permissible manner. A comparison of actual expenditures against appropriations can be found on page 17 of these financial statements.

### **NOTE 3 - DEPOSITS AND INVESTMENTS**

#### **Interest Rate Risk**

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

#### **Credit Risk**

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2020, the Academy had no investments.

#### **Concentration of Credit Risk**

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

#### **Custodial Credit Risk - Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2020, \$986,623 of the Academy's cash was exposed to custodial credit risk. All cash balances were uncollateralized as of June 30, 2020.

## LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2020

### NOTE 3 - DEPOSITS AND INVESTMENTS – Continued

#### Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

#### Foreign Currency Risk

The Academy is not authorized to invest in investments which have this type of risk.

#### Fair Value

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Academy has the ability to access.
- b. Level 2 inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- c. Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The observable inputs should be developed based on the best information available in the circumstances and may include the Academy's own data.)

The Academy does not have any investments that are subject to the fair value measurement.

## LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2020

### NOTE 4 – DUE FROM OTHER GOVERNMENTAL UNITS

Amounts due from governmental units consist of the following:

Local sources	\$	8,500
State sources		823,490
Federal sources		<u>205,592</u>
Total	\$	<u><u>1,037,582</u></u>

### NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>June 30, 2020</u>
Capital assets subject to depreciation				
Improvements	\$ 7,194	\$ -	\$ -	\$ 7,194
Equipment	<u>5,900</u>	<u>-</u>	<u>-</u>	<u>5,900</u>
Subtotal	13,094	-	-	13,094
Accumulated depreciation				
Improvements	857	1,025	-	1,882
Equipment	<u>421</u>	<u>841</u>	<u>-</u>	<u>1,262</u>
Subtotal	<u>1,278</u>	<u>1,866</u>	<u>-</u>	<u>3,144</u>
Total net capital assets	<u>\$ 11,816</u>	<u>\$ (1,866)</u>	<u>\$ -</u>	<u>\$ 9,950</u>

Depreciation and amortization expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

## LIGHTHOUSE CONNECTIONS ACADEMY

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2020

### NOTE 6 – OTHER ACCRUED EXPENSES

Other accrued expenses may be summarized as follows:

Purchased services - payroll and benefits	\$ 134,428
Other	<u>8,063</u>
Total other accrued expenses	<u>\$ 142,491</u>

### NOTE 7 – OPERATING LEASES

#### Lease Information

	<u>Maturity Date</u>	<u>Approximate Payment</u>	<u>Other</u>
Facilities	June, 2023	\$7,300 monthly	Lease runs from July 1 to June 30. Rentals increase yearly per lease agreement.

The approximate amount of lease obligations coming due during the next three years are as follows:

2021	\$ 87,576
2022	89,784
2023	92,004

Total lease expense included in the statement of activities for the year ended June 30, 2020 amounted to \$79,028.

### NOTE 8 - RETIREMENT PLAN

All employees leased by the Academy are eligible to participate in a retirement plan established by Connections, "the Employer", which qualifies under the provisions of Section 401(k) of the Internal Revenue Code. Eligible employees may contribute up to 15% of their salary under the terms of this plan.

## **LIGHTHOUSE CONNECTIONS ACADEMY**

NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2020

### **NOTE 9 - RISK MANAGEMENT**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### **NOTE 10 - CONTINGENCIES**

Global efforts to contain the spread of COVID-19, often referred to as the Coronavirus, have significantly impacted many businesses, the economy and school. As a precaution to slow the spread of the virus the 2019 – 2020 school year ended in person education early pursuant to the governor of Michigan's executive order on March 13, 2020. There were also resulting budget cuts to state aid that resulted in reduced state funding for the last payment of the year. The Academy is economically dependent upon this state funding for normal and continued operations. The reduced funding will be supplemented two for one with federal program funds during the 2020 – 2021 school year however the existence and continuation of federal resources beyond this coming fiscal year is not currently known. While the situation continues to evolve, and the full impact is yet to be determined, it can be reasonably expected that state funding for schools will be affected due to the economic effects of COVID-19.

# SUPPLEMENTARY INFORMATION

## LIGHTHOUSE CONNECTIONS ACADEMY

### REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE – GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2020

	Original Budget	Final Budget	Actual	Variance
<b>Revenues</b>				
Local sources	\$ 158,000	\$ -	\$ -	\$ -
State sources	3,440,820	5,141,914	5,029,548	(112,366)
Federal sources	230,406	268,426	331,850	63,424
Interdistrict sources	158,000	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total general fund revenues	3,987,226	5,410,340	5,361,398	(48,942)
<b>Expenditures</b>				
Instruction				
Basic programs	1,922,014	2,663,719	2,545,495	(118,224)
Added needs	321,261	342,193	462,638	120,445
Support services				
Instructional staff support services	120,834	166,497	325,772	159,275
General administration	149,290	166,701	160,106	(6,595)
School administration	567,884	643,336	948,130	304,794
Business support services	476,058	636,066	80,689	(555,377)
Operations and maintenance	110,500	100,391	80,321	(20,070)
Central support services	151,278	194,013	186,744	(7,269)
	<hr/>	<hr/>	<hr/>	<hr/>
Total general fund expenditures	3,819,119	4,912,916	4,789,895	(123,021)
Excess (deficiency) of revenues over expenditures	168,107	497,424	571,503	74,079
Fund balance - July 1, 2019	22,814	22,814	22,814	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance - June 30, 2020	<u>\$ 190,921</u>	<u>\$ 520,238</u>	<u>\$ 594,317</u>	<u>\$ 74,079</u>

# LIGHTHOUSE CONNECTIONS ACADEMY

## SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2020

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### **1) *Audit findings that have been fully corrected:***

Fiscal Year: 2019

Finding Number: 2019 – 001

Finding: The Academy did not properly record a deferred inflow of resources for certain grant revenue not collected within the current period or soon enough thereafter to pay liabilities of the current period.

Comments: The Academy had since revised its procedures to ensure that all funds are to be collected within the 60 day window and if not will be properly designated within the financial records as unavailable.

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### **2) *Audit findings not corrected or partially corrected:***

None